

STAT

Rebirth of the Shanghai Electric Machine

Industry

Tien Shih-chieh, Wen Ch'en, Shanghai,

15 May 1950

STAT

THE REBIRTH OF SHANGHAI'S ELECTRIC MACHINE-BUILDING INDUSTRY

Wen Ch'en

I. PURPOSES OF THE PURCHASING CONFERENCE SPONSORED BY THE CENTRAL PEOPLE'S GOVERNMENT

Vice-Minister Liu Ting of the Heavy Industry Department wrote an article in the Peking People's Daily, 18 April 1950, entitled "Heavy Industry's First Goods Purchase Order" in which he told us about the nationwide conference on ordering goods from steel and electric machine-building industries held on 5 February in Peking. The first purchase order which was signed in the middle of March at this conference amounted to 1,700 billion people's yuan, or the equivalent of 720,000 metric tons of wheat, or 3.5 times as much as the total value of machinery and tools imported in 1946. Since then preparation has been made for negotiating second and third purchase orders. Such large-scale ordering of goods under the sponsorship of the government, according to Mr. Liu, is unprecedented. He said its objective is to bring production and consumption together in the interest of the people and to substitute production planning for blind production.

With a view to preventing inflation, payments for purchase orders will be made not in money but in book accounts through accounting practice as far as it is practical; orders will be filled with domestic products instead of imported goods; and when orders must be filled with imported goods such as machine parts and raw

materials, the orders will be handled by a centralized authority in order to save on foreign exchange. The advantages one may expect from purchase orders are, first, a close connection is once again established between production and consumption; second, waste from salesmanship, advertising, and slackened capital turnover is eliminated; and third, as a result of a stabilized market, public and private industrial concerns can carry out production specialization by which product quality will be improved and costs lowered.

East China's electric machine-building industry receives a share in this first purchase order; its share, valued at about 10 billion people's yuan, consists mostly of electric generators, transmission facilities, power mains and lines. It does not include any great quantity of transformers, nor does it include radio communication and telephone facilities, tubes and batteries. The fact that the first purchase order does not include in it a wide variety of goods or includes only scant amount is mainly because the conference is a nationwide conference in which it is impossible for the participating delegates to negotiate for all the goods they need. It is certain, however, that after having had experience in this conference in placing purchase orders, and having more time to make preparations either in ideology or in business matters, we will be able to do a better job at subsequent purchase conferences.

In this conference we discovered many erroneous attitudes which need reform through studying. Every district and every plant

TESTIMONIES

showed concern for its own interest only; for instance, the buying party was always insistent on low, low prices and did not believe the cost records furnished by the manufacturer. Some of the participants suspected that domestic products could not be perfectly substituted for foreign products; they were eager to use foreign exchange from the government to order goods abroad. Sometimes the selling party was not honest in making bids, and presented inaccurate or false cost records; they expected to make big profits. After a period of ideological self-criticism and struggle, and inspired by the government's repeated persuasive explanation and instruction, the conferees finally comprehended the correct ideology; thereafter the data presented by them became more accurate and true. When the conference adjourned, it was generally recognized that only through cooperative efforts could the various problems be solved.

II. THE INDUSTRY DIVISION'S PRACTICES IN HANDLING PURCHASE ORDERS

Having negotiated purchase contracts on behalf of the industrial concerns in its area, the Industry Division of the East China Military and Political Control Committee signed sub-contracts with the various private and public firms in Shanghai. It met with some difficulties in the negotiation. As a result of studies, the Industry Division adopted the following policies in negotiating sub-contracts with its local industrial concerns:

1. No price discrimination between public and private industrial concerns. Payments may be made in installments.

RESTRICTED

2. With respect to standard types, sizes, and grades of goods, the private manufacturers shall follow the state enterprises.

3. Cost accounting will be examined carefully. Industrial plants should economize on production costs before they expand the scale of production, particularly reducing labor cost and indirect costs. Ability to reduce cost will be the measuring rod for honorable citations and rewards.

4. An industrial plant shall use its reserve raw materials before it is eligible to apply for raw materials from the Industry Division as part payment for goods included in the purchase order.

5. Profit rate should be reasonable; it should, in normal cases, range from 5 to 15 percent.

6. Finished products included in the purchase order will be examined by the Inspection Section of the Industry Division; however, the Business Section may inspect any phase of work in the course of production.

7. Public and private enterprises must fulfill their legal obligations as written in the contract.

After consulting with more than ten plants which are considered enlightened plants, the Industry Division adopted the price for the 5-horsepower 4-phase electric induction motor as the standard for pricing electric goods in general; it was priced at the equivalent of 1,700 catties of rice; and the price of the 50 kilovolt

RESTRICTED

ampere, 3-phase 6,600/380-220 volt transformer, the equivalent to 16,100 catties of rice, as the standard for pricing electric transformers of various types. Prices for other electric machines such as generators and transmission units of different sizes will be computed on the basis of the official index table and their individual weight table. Some people contended that this method of pricing is not very fair because it is not very accurate. We recognize that it is only a tentative method which will be subject to revision from time to time. Furthermore, because Northeast China's customers often complained that Shanghai's sellers ask very high prices for electric machinery and thus showed reluctance in placing their orders, we cannot but modify prices somewhat and try to cut down production costs.

In a spirit of mutual assistance, 18 privately-owned plants accepted purchase orders for 459 electric generators, ranging from $\frac{1}{4}$ to 150 horsepower and totalling 3,442 horsepower, equivalent to 2-month's production at these plants. Orders for transformers were not numerous; they were distributed to 3 plants only. Orders for transmission facilities were distributed among 7 plants (two of which are owned by combined state and private capital); they amounted to a volume sufficient to keep these plants busy for 2 or 3 months. Some state-owned plants obtained orders which would sustain a half-year's operation. In the near future there are going to be purchase orders amounting to a total of 10,000 horsepower in capacity; these will be distributed among private producers. Thus the depression in electric machine-building industry will no longer exist.

RESTRICTED

III. A COMPARISON OF PUBLICLY-OWNED AND PRIVATELY-OWNED PLANTS

There is only one publicly-owned electric plant in East China, the Shanghai Electric Machinery Plant. It was formerly a part of the Central Electric Machinery and Equipment Plant of the National Resources Committee of the Kuomintang regime. It does not have a huge amount of equipment, but it has acquired a high technical level. As a consequence of the liberation, it has one more favorable factor in addition to higher technology and possession of abundant technical documentation, including designs, i.e., the government is furnishing it with more equipment. Besides, the workers' enthusiasm has been increased. On the one hand, the government intends to encourage privately-owned plants which have good prospects; on the other hand, it wants to create a state enterprise so that the state enterprise can discharge its leadership function toward the private enterprises. Thus the East China's Committee on Economic and Financial Affairs approved the Industry Division's plan of allocating a number of new machines and building one or two new factory buildings at the Shanghai Electric Plant provided that this plan is in accord with the general policy issued by the Central People's Government. Although our nation's investment in the electric machine-building industry is greater in ^{the} Northeast, Shanghai's electric machine-building industry has the highest output at present.

Less than 6 months after the resumption of operation, the publicly-owned Shanghai Electric Machinery Plant's production showed

RESTRICTED

a great increase; in April it produced electric generators of a total capacity of 4,350 horsepower, which is 4.75 times greater than 1949's highest record; and transformers of a capacity of 3,500 kilovolt/amperes, which is 1.8 times greater than 1949's highest record. This accomplishment is attributed to increasing enthusiasm on the part of the workers; they have successfully conducted self-criticism, been on time, and practiced economy. Production efficiency is expected to increase further when a democratic management and economic auditing system are established.

Of course the Shanghai Electric Machinery Plant is not excellent in everything when compared with privately-owned plants. Some private plants have a longer history and more highly skilled workers, while some others have special experience in making various products and in various phases of machine building. Some plants, though relatively young, can produce very fine products because they have the best technicians. Some plants do not have large-scale equipment, but they have some precision machinery and test equipment. Some produce high quality transmission equipment, while others specialize in meters and other products. In short, growing up in the free competition of the past, each of the privately-owned plants possesses some special advantages one way or the other. If we can use purchase contracts as a means of control, and guide these plants toward further production specialization, the electric machine-building industry in Shanghai will be a valuable force in China's industrialization.

RESTRICTED

Undoubtedly, Shanghai has too many private electric machinery plants; some of them are too small in scale of operation. Only 50 out of the total 200 electric machinery plants are electric machine-building plants. Some of them have very poor facilities and the quality of their products are below standard. Obviously industrial plants such as these cannot stay long in business, for the government will not distribute purchase contracts for their low-quality products. Henceforth, the quality of their products will be the decisive factor in their existence. However, plants whose equipment is poor, but where the workers' efficiency is high will be given benefits through the distribution of work orders by way of their joint business organization; and small-size plants may receive orders for machine parts if they can maintain product quality through production specialization.

A stumbling block still exists in a way of thinking among public and private plants in Shanghai; it is the so-called "reproduction cost." Previously the state enterprise's indirect costs were higher than those in private plants because of its excessive personnel and red tape. Now they are no longer higher than those in the private plants as a result of simplified administration, economy, and rising enthusiasm. Nevertheless, managerial personnel in state enterprises are still anxious to earn more money to sustain the capital for continuous operation. Because their cost accounting is not accurate, and because they have gotten used to rising prices of raw materials and machines, they are now afraid of losing money;

RESTRICTED

hence they deliberately raise their prices. Other factors that contribute to their thinking that they are losing money are that they find it difficult to obtain more appropriations from the government, and that they cannot change the prices of their products flexibly as the private producers can. Besides, they think that their products are better than those produced by private plants. They forget that their products are not necessarily better than others, and that if they always charge higher prices, they will discourage the customers. Since prices will remain stable, imported industrial materials are controlled by the state without violent fluctuation in their prices; hence the cost of production should not fluctuate violently as it did previously in a free market. Moreover, economic conditions in general are better than before. Third, the purpose of building up state enterprises is to carry out national reconstruction; there is no sense at all to making more profits since both the buying and selling parties are now the state. Real achievement lies not so much in making a money profit as in winning our struggle with nature through cost reduction and economy.

IV. REFORM OF THE PRIVATE PLANTS

A manager of a private plant told me: "Having recognized that this is a new era, I decided to reform my plant. I do not worry about my business prospects; the Industry Division will help me. But because there are no military representatives assigned to

RESTRICTED

my plant, and because the workers do not receive Communist education and leadership similar to those in the state-owned plants they do not have a deep understanding of the correct ideology. Therefore, it has been difficult to improve production efficiency." Such a statement clearly indicates that this manager has not had reformed his way of thinking; he does not know how to follow the mass line. Under the leadership of the trade union the working class has resolved to boost production; despite the fact that the workers have ideological conflicts with the capitalists and are not as culturally advanced, they are willing to cooperate with the capitalists to set the factories in order. The interests of the capitalists, the workers, and the new People's Democracy are one; the workers should unite with the capitalists, while the capitalists should unite with the workers; both the workers and the capitalists should take the initiative to maintain and boost production. First of all, the capitalists should practice self-criticism; they should ask themselves whether they have ever belittled the workers' opinion and whether they have been unfair in choosing personnel. If they have not committed such mistakes, I am sure the workers will be very glad to cooperate; otherwise, they should sincerely repent and follow the correct ideology before they ask the workers and employees for cooperation. If they cannot get along with local trade union organizations, the higher levels of the trade union will surely render assistance to effect cooperation between the union and management; it is not necessary that they be assigned "military representatives" or "special commissioners".

RESTRICTED

The Hsin-an Electric Machinery Plant serves as a good example of what we have said above. Manager Sun Ting is a progressive capitalist as well as a fine engineer; he knows that he must take the responsibility of uniting the workers and boosting production under the new People's Democracy. He started with self-criticism; he came to realize that he did not have the right kind of managerial ability; he had his hands in too many things at once and did not know the risk involved in too fast growth. Furthermore, his administrative set-up was not functioning efficiently and the workers were extravagant in handling raw materials and hence production cost was high. Subsequently he launched campaigns for higher efficiency and greater economy. He determined to line up with the masses of the workers by requesting them to conduct studies and self-criticism. Thus virtually all the workers in his plant and he himself become military representatives, for they have put into effect a democratic management system and an economic auditing system. Mr. Sun succeeded because he did not dictate things and was not arrogant. Why do privately-owned plants not learn from Mr. Sun?

It is true, as indicated by Mayor Chen in the Third Session of Shanghai People's Political Consultative Conference, that many of the difficulties confront private industry in Shanghai are due to their inefficient organization and irrational business management. Private industrial plants use fewer personnel than state enterprises, but don't they sometimes use a man not entirely on the basis of his ability but on the basis of his personal influence? Are there not many employees who were employed because they were relatives of

RESTRICTED

managers or big stockholders? Wasn't the administration of the plant efficient?

Before the liberation, many private plants used American money or gold as units of account and medium of exchange; they made profits by illegal dealing in imported raw materials. Now there is no longer an import quota and everything is back to normal. Because the changes were so sudden many of the private plants were caught unprepared; they could not get used to the normal functioning of the present-day economy. Some of them curse and complain; they do not criticize themselves. Plants which have better foundations and better organization will survive and grow; but those who were traditionally afraid of workers and who were not sincere with workers will suffer the consequence of their mistakes, for there will not be enough work assigned to them by the government; even if the government orders a tremendous amount of goods, it will give preference to those plants who have a higher technical level, good financial standing, fewer labor disputes, or those plants recommended and guaranteed by trade unions. Recently many plants organized themselves in a less formal way in order to obtain goods orders from the state; this will help the small plants share some responsibility for the common production objectives.

Because of their own difficulties, some private plants requested the Industry Division to reorganize them into joint ownership as a way out. This is an erroneous attitude. There are only two instances of the East China Industry Division's converting

RESTRICTED

private plants into joint ownership as a means to sustain private industry; the two plants involved are the Hsin-hsing Plant, a machine-building plant, and the Hua-tung Plant, an electric machine-building Plant. The reorganization of these plants is a result of long preparation, consultation and many complicated procedures; it costs money and man hours. In fact, the Industry Division is very cautious in sharing the ownership of private plants: first, the government does not have sufficient money and personnel; and second, the government intends to encourage them to be self-sustaining; it does not expect them to quit their jobs. They should reform their own business on the basis of self-support if they correctly recognize the government's policies.

The electric bulb industry faces more difficulties than the electric machine-building industry, because electric bulbs are a daily consumption item. It is hoped that the State Consumer Goods Trading Enterprise will survey the market and map out a plan for distributing electric bulbs to various districts; we must avoid overproduction. Prospects for electric lines, telephone, and radio equipment producers is promising; however, large-scale purchase orders will come only when the war of liberation is ended and agrarian reform is completed. Nevertheless, we must make conscious efforts now to cooperate with labor, improve the management system, and increase efficiency for assuring a prosperous future.

RESTRICTED

V. CONCLUSION

Although Shanghai (and Nanking) is not the center of the electric machine-building industry for the nation as a whole, it is the birthplace of the electrical industry in general; it produces medium- and small-size electric generators, precision electric communication units, meters, and power mains, etc. And although some technical personnel and electric machine-building plants should move to the interior, the plants which remain in Shanghai and Nanking can serve as centers for training more technical personnel to meet the nation's needs. Therefore the private electric machine-building plants should improve their organization, unite with the workers, eliminate waste, reduce costs, improve production techniques and equipment, develop their market, adopt industrial standardization and raise product quality. Furthermore, they should gradually advance toward production specialization on the basis of available technicians, equipment, and technical know-how. They should exchange industrial information and experience with each other and try to solve by joint efforts the supply of raw materials. They should explore the genius of the workers for improving production techniques. We expect that from now on we can forever do away with our dependence on imperialist countries and that we will surpass them in industrial output and quality.

E N D